

EXECUTIVE SECRETARIAT

Routing Slip

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1	DCI				
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6	DDA				
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8	DDS&T				
9	Chm/NIC	✓			
10	GC				
11	IG				
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15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS	✓			
20	NID/ECON	✓			
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SUSPENSE					

Date

Remarks:


 Executive Secretary
 5/12/83
 Date

2537 (10-R-1)

NSC Review Completed as Redacted.



OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

May 11, 1983

Executive Registry

83-2550

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(With Confidential Attachments)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
✓ DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT Senior Interdepartmental Group on International
Economic Policy (SIG-IEP)

Attached are background papers on Korea and Nigeria
Agricultural Credits and an Update on Country Debt Issues for
the SIG-IEP meeting to be held on Friday, May 13, at 3:00 p.m.,
in the Roosevelt Room.

David E. Pickford
David E. Pickford
Executive Secretary

Attachments

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SENIOR INTERAGENCY GROUP
May 13, 1983

ARGENTINA

- o There has been no further progress in settling the dispute between Argentina and the U.K. over blocked payments of profits and dividends to U.K. firms in Argentina.
- o Nor has there been any progress on finalizing the \$1.5 billion syndicated loan agreement and the associated rescheduling of public sector debt.
- o Economic indicators, however, appear to have improved slightly during April.
 - oo Inflation slowed to 10.3% in April compared to an average monthly pace of 12.8% during the first quarter. Inflation for the first four months was still equivalent to an annual rate of nearly 300%.
 - oo The GOA appears to be maintaining an appropriate pace of exchange rate adjustments and is also keeping prices for public goods at appropriate levels.
- o Nonetheless, it is too soon to tell if Argentina is in compliance with its IMF quantitative performance requirements as required for its next disbursement after May 20.
 - oo The IMF team returned to Buenos Aires on May 10 to get the final data.
 - oo The greatest area of concern is that Argentina may have exceeded the ceiling on net domestic assets of the Central Bank.

BRAZIL

- o Brazil's group of liaison banks have followed up on the meeting in London on April 18 to find ways to restore the immediate shortfalls of about \$1.5 billion in Brazil's financial program.
 - oo U.S. banks met in New York on April 26 to discuss restoring interbank deposit levels and many of the regional banks indicated a preference for extending trade finance in lieu of interbank short-term deposits.
 - oo The 18 coordinating banks met again on May 9 and a suggestion that Projects III (trade finance) and IV (interbank funding) be combined was rejected by coordinators from the U.K., Japan, and Germany as inequitable to banks already at their "fair share" in the interbank market since trade finance is generally more profitable and attractive.

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- o A routine visit by a member of the IMF staff to Brazil triggered vehement public attacks against the GOB's efforts to comply with the program.
 - oo Most observers believe that while Brazil is implementing the balance of payments portion of the program on target, severe slippage has occurred in domestic economic policy.
 - oo While it is too soon to talk about Brazil's being formally out of compliance, there is little question that Brazil was slow to implement a number of policy adjustments and still needs to make several changes if it is to meet its overall fiscal and monetary targets this year.
- o At present, Brazil's Central Bank owes about \$770 million in foreign exchange to its commercial banks, petroleum suppliers, and others.
 - oo No formal "arrearages" exist, however, just "slow-payments" 15-25 days past due.

CHILE

- o The GOC and its 12-bank Advisory Committee have agreed upon a financing plan which has been telexed to Chile's 550 foreign bank creditors.
- o Responses from creditor banks are not expected until end-May. In the meantime, the GOC has requested a second 90-day standstill through July 31 on principal payments by public and private sector borrowers.
- o The plan calls for:
 - oo \$1.3 billion in new loans, repayable over seven years, including four years' grace;
 - oo rescheduling over eight years, with four years' grace, of:
 - \$1.1 billion of medium and long-term principal payments by public sector and private financial sector borrowers which fall due in February-December 1983 and an additional \$1 billion falling due in 1984;
 - oo maintenance of short-term trade-related credits at the end-January level of about \$1.2 billion.
- o Banks are asked to participate in the new money facility on the basis of 11.25% of their end-January 1983 exposure.
- o Disbursements under the new money facility will be subject to Chile's progress toward getting back into compliance with its IMF program.

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JAMAICA

- o Jamaica is currently out of compliance with its Fund program.
- o The shape of the third and final year of its Extended Fund Facility arrangement is still under negotiation.
 - oo The first disbursement of the third year, estimated at \$40 million, will be delayed until negotiations are successfully completed.
 - oo Substantial agreement has been reached on a number of difficult issues, in particular, the size of the Central Government budget deficit, now slated to be cut to 12.3% of GDP. Some other issues remain to be negotiated.

MEXICO

- o A rescheduling of official (including Eximbank) direct and guaranteed credits to Mexican private sector borrowers will be discussed informally among creditors at the Paris Club meeting on May 17.
 - oo U.S.G. officials have had a number of meetings with GOM officials and also met with other creditor countries in Washington on April 29 on the fringes of the Development Committee meeting to exchange views on such a rescheduling.
- o The Mexicans have indicated their preference for rescheduling outside the Paris Club, but have agreed to pursue a multilateral approach.
- o Creditors have agreed to proceed as rapidly as possible and should be able to complete the rescheduling in the next 2-3 months.

VENEZUELA

- o Agreement between the GOV and its 13-bank Advisory Committee on the principles for rescheduling public debt is nowhere in sight.
 - oo The Committee is dissatisfied with adjustment measures taken by the GOV and reportedly decided unanimously that an IMF stand-by program would be a requirement for any refinancing.
 - oo The Advisory Committee is projecting a 1983 current account deficit of \$2 billion, double the GOV's current estimate.

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- oo The Advisory Committee is recommending that the GOV increase domestic interest rates to dampen capital flight and lure Venezuelan capital home, eliminate subsidies on goods and services to ease fiscal strains, rationalize the exchange rate system, and provide for servicing of private sector external debt.
- oo The Embassy's assessment is that the GOV will be extremely reluctant to swallow an IMF program during the election year and that refinancing talks will continue to flounder.
- oo The GOV reportedly met with the Advisory Committee on May 9 to discuss its economic policies.
- o Revised balance of payments figures for 1982 show a current account deficit of \$3.5 billion, compared with the preliminary estimate of \$2.2 billion and the surplus of \$4 billion in 1981.
 - oo Factors accounting for the large increase in the estimated size of the 1982 deficit are higher interest payments and tourism expenditures abroad.
 - oo Even the revised data appear to underestimate total interest payments and the 1982 deficit could eventually prove to be as much as \$4.2 billion.

PERU

- o On May 5, the GOP formally requested a Paris Club rescheduling of its public sector debt to official creditors.
 - oo Preliminary indications are that the GOP wishes to reschedule over \$1 billion of debt falling due from May 1, 1983, to February 28, 1985.
 - oo Payments covered under the 1978 rescheduling agreement would not be rescheduled again.
- o The GOP's decision to request a Paris Club rescheduling was motivated by:
 - oo the impact of the continuing natural disasters on expected exports; and
 - oo the short-fall in the foreign bank refinancing package.
- o A recent GOP projection anticipates 1983 exports of less than \$3 billion, compared with the original 1983 projection of \$3.5 billion and estimated 1982 exports of \$3.2 billion.
 - oo In view of this, the GOP envisions trimming imports to \$3.0 billion, compared with the original 1983 projection of \$3.2 billion and estimated 1982 imports of \$3.5 billion.

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- °° Allowing for some positive offsets in net services and transfers, the current account deficit may total \$1.2 billion, rather than the \$900 million that the GOP had originally projected for 1983 (vice \$1.4 billion in 1982).
- The GOP has completed a financing package of \$770 million from the foreign banks which:
 - °° provides \$450 million in "new" money, including \$130 million to replace short-term debt run off in January-February; and
 - °° refines \$320 million of medium-term debt maturing from March 1983 to March 1984.
- The GOP had originally sought \$880 million from the foreign banks.
 - °° The \$110 million that is not being to refinanced consists of export credits guaranteed by foreign governments and official agencies.
 - This amount will be covered by the Paris Club rescheduling.
 - °° Notwithstanding this short-fall, Peru's requests were well received and the new money portion of the package was over-subscribed.

NIGERIA

- Nigeria has decided to begin negotiations with the IMF for a 3-year extended arrangement.
 - °° Finance Ministry Permanent Secretary Alhaji told Assistant Secretary Leland on April 29 that Nigeria wanted an arrangement in place as quickly as possible.
 - °° Fund staff confirms this, and notes that Nigeria will probably seek full access to Fund resources -- 150% of its SDR 540 million quota each year for three years, or roughly SDR 2.4 billion total.
 - °° Key policy areas to be addressed are the exchange rate, trade regime, structure of relative prices, and fiscal issues -- questions on which the Nigerians are the most sensitive. Fund staff has cautioned that negotiations of a multi-year program could be a lengthy process.
- Oil production is up and could average 1.3 million b/d (Nigeria's OPEC quota) in the second quarter, compared to about 800,000 b/d in the first quarter.

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- .. Despite a May production upsurge, overall oil revenues are forecast at about \$11 billion for 1983, compared to \$10.6 billion previously.
- .. Output is expected to run at about the 1.3 million b/d level for the remainder of the year.
- o Discussions are continuing with Nigeria's 19 largest commercial bank creditors on a refinancing of short-term arrears to those banks.
 - .. Nigeria has proposed a rescheduling of \$2 billion owed to the 19. U.S. banks are reported to be concerned that banks in addition to the 19 would not participate in this initial operation.
 - .. A proposal was to be presented to Nigeria this week that would establish a bank steering committee to determine the amount of arrears.

POLAND

- o At the Paris Club next week, a working group will review Polish adherence to the 1981 agreement, answers to a creditor questionnaire of October, 1982, and the Polish foreign exchange situation for 1983.
 - .. This will be followed by a half-day's discussion by all creditors.
 - .. The U.S. will seek a concerted effort to collect those amounts due and unpaid under the 1981 rescheduling. Some \$28 million plus penalty interest is due USG agencies; about \$14 million has already been collected.

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~~CONFIDENTIAL~~CCC GUARANTEES FOR NIGERIAIssue

Reduced oil earnings, compounded by poor economic management have put Nigeria in the midst of a serious financial crisis. With elections scheduled in August, the Government has relied on import controls, rather than the fundamental structural adjustments the economy needs. This situation raises the prospect of food shortages and political unrest during the pre-election period.

The issue to be considered by the SIG/IEP is should the USG provide CCC guarantees to Nigeria, and if so, under what conditions?

Background

At a SIG/IEP meeting on April 14, the Department of State circulated a proposal to provide Nigeria with an immediate \$200 million in CCC credits to reduce the risk of political instability while opening a dialogue on the need for economic adjustment supported by the IMF. This was to have been the initial step in a larger strategy and financial package of up to \$1 billion. Since then, several developments have reduced the need to consider the overall package now and the issue has been narrowed to only the immediate question of whether or not to provide CCC guarantees.

- o Nigerian oil production has increased recently to about 1.3 million b/d (its OPEC ceiling), from about one-third that level prior to the price cut in February.
- o Nigeria's discussions with commercial bank creditors have progressed faster than anticipated, so that a refinancing of at least a substantial portion of its short-term arrears is under negotiation.
- o Senior Nigerian Finance Ministry officials have told us and the IMF that they intend to begin negotiations immediately for a 3-year extended fund facility arrangement.

Nigeria's situation is still very difficult, but the major elements for a recovery program are beginning to fall into place. Nigeria's exchange rate is severely overvalued and underlying import demand remains out of line with resources. The Government continues to run large budget deficits. Accordingly, there are still major hurdles to be overcome and agreement with the Fund on an arrangement will require substantial concessions in these areas about which Nigeria is extremely sensitive.

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The U.S. has a major political interest in Nigeria, which has a quarter of Africa's population and one of the few functioning democracies on the continent. A moderate and pragmatic Nigerian Government has been cooperative in promoting a wide range of U.S. bilateral and regional objectives. Often cast in the role of a leader and spokesman for African moderates, Nigeria carries considerable weight on the continent. It aspires to a major non-aligned role and is active in most international fora. Nigeria also plays a major role within OPEC, and currently chairs the organization. For geographic and political reasons, Nigeria generally is considered to be a more secure source of oil than the Middle Eastern countries.

The political atmosphere in Nigeria has been aggravated by economic tensions and growing social unease. The U.S. Embassy in Lagos estimates that food imports in 1983 could be 20% below 1982 levels and 40% lower than in 1981. Food shortages are a possibility, which if they occur would raise the prospect of food riots in major urban areas that would pose a grave threat to the democratic system. The Government gives a high priority to dealing with food supplies and there is a report of a possible oil for wheat barter of up to \$150 million.

As part of its effort to arrange food supplies, the Government of Nigeria has formally requested \$150 million in CCC guarantees. (USDA proposed a \$128 million blended credit for Nigeria in February, but the proposal was withdrawn because of creditworthiness concerns.) There are no uncommitted credit guarantees remaining in the USDA's \$5.2 billion FY 83 export credit budget. USDA is preparing a proposal for a credit increase to bring before the Budget Review Board, but there is no certainty that it will be approved. Also, careful assessment of relative country priorities should be made, both against U.S. commercial and foreign debt strategy criteria.

Two of the options below propose moving forward now on CCC guarantees of up to \$150 million, provided new authority is granted. (The composition of the commodities to be provided, e.g. rice and wheat, would depend on Nigeria's anticipated needs and U.S. commercial interests and could be worked out promptly.) The immediate question is whether to move forward now, either unconditionally or with a clear written commitment by Nigeria to negotiate an IMF arrangement (Options I and II), or whether to provide financing only at a later date in conjunction with an agreed IMF arrangement (Option III). Those favoring Option I believe that it is politically essential to move forward and that Nigeria's economic and financial situation is improved sufficiently so that the package does not constitute "extraordinary" financing and does meet the criteria of the CCC program. Others favoring Options II or III do not believe that the situation has clarified sufficiently to draw that conclusion. They argue that, in addition to decisions on overall CCC program levels and commercial criteria, any USG financing must also be considered in light of the Administration's agreed overall strategy on dealing with debt problems of foreign countries.

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Option I: That the USG offer an immediate CCC credit of up to \$150 million.

This option would be designed as a clear gesture of support for Nigerian democracy by helping Nigeria to deal with immediate food problems. At the same time, it would provide a vehicle through which the USG could conduct a dialogue with Nigeria on the need to conclude a strong IMF-supported program promptly. Simultaneously, the USG could hold out the prospect of additional financing later, probably in a multilateral context, conditional on adoption of an economic adjustment program supported by the IMF.

Pros

- o Short-term food shortages would be alleviated expeditiously, thus improving the prospects for political stability before the elections.
- o This would be up-front and unconditional evidence of U.S. support of Nigeria's democratic system that could bolster USG influence in urging the Government to adopt appropriate economic policies.
- o CCC guarantees would help to maintain U.S. agricultural exports to Nigeria, which have been declining substantially.

Cons

- o USG financing in the absence of the firm prospect of meaningful policy changes would be a departure from existing policies for providing financial assistance to countries with debt problems.
- o USG financing prior to appropriate adjustment efforts and an IMF agreement might tend to delay necessary policy changes, increasing the risk of default.
- o CCC has used its entire authority for FY 83. Without an increase, this option would require a reallocation of already committed guarantees.

Option II: That the USG provide up to \$150 million in CCC guarantees, but with the condition that Nigeria provide a written commitment to the USG to have an IMF arrangement in place within a specified period.

This option would be intended to achieve the same goal of support for Nigerian democracy as Option I, but we would explain to the Nigerians that U.S. financial support must be in support of appropriate economic policies. A confidential letter of understanding would provide tangible evidence of Nigeria's serious intent to implement meaningful economic reforms in an acceptable time frame.

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Pros

- o This approach is more clearly consistent with the USG strategy for providing financial support to countries with debt problems.
- o We strengthen the precedent of linking financial assistance to effective adjustment policies.

Cons

- o Requirement of a letter would probably delay and might preclude provision of guarantees. It would jeopardize our ability to respond to a possible food shortage.
- o This approach would reduce our political influence with the Nigerians and ability to encourage them to undertake the necessary economic reforms.
- o CCC has used its entire authority for FY 83. Without an increase, a reallocation of already committed guarantees would, be required.

Option III: That the U.S. not provide CCC credits at this time, but offer to review this position if additional financing is needed in conjunction with an IMF arrangement.

If this option were adopted, we would express understanding of and interest in Nigerian difficulties, but note that economic reforms are the first step toward solving Nigeria's economic and financial problems. We would encourage Nigeria to pursue negotiations promptly for IMF support and point out that the combination of IMF resources and commercial bank financing that would follow makes bilateral official credits relatively unnecessary. We could offer to provide official credits in a multilateral context in the event that a financing gap remained.

Pros

- o This stance is consistent with existing policy not to provide emergency financial assistance (e.g. ESF) in the absence of an IMF-supported program.
- o Assuming new CCC authority is forthcoming, we would have more resources available to aid other "problem" countries that have adopted effective adjustment programs.

Cons

- o U.S. influence to urge appropriate economic reforms could be reduced. Failure to approve a Nigerian request for what it regards as normal commercial guarantees could strain long-term bilateral relations.
- o This does not provide immediate financing to deal with a possible food shortage.
- o The U.S. could lose a large agricultural market in Africa.

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BLENDED CREDIT FOR COTTON TO KOREAIssue:

Requests have been received from the Korea Flour Mills Industrial Association, the Spinners and Weavers Association of Korea (SWAK), the Korean feed milling industry and the Korean soybean processing industry for allocations under the Blended Credit Program. A \$130.0 million allocation is proposed for Korea. The commodity breakdown is as follows: soybeans, 120,000 mt valued at \$28.0 million; corn, 75,000 mt valued at \$10.0 million; wheat, 250,000 mt valued at \$42.0 million; and, cotton, 143,000 bales valued at \$50.0 million. The \$130.0 million would be comprised of \$104.0 million in GSM-102 and \$26.0 million in GSM-5. Allocations of blended credit for soybeans, corn and wheat have been favorably reviewed by the NAC; however, the proposal for cotton was referred to the SIG-IEP. On March 17, the SIG-IEP rejected the \$50 million blended credit proposal for cotton.

USDA did not announce availability of the credits for soybeans, corn and wheat because it believed the approval for these commodities was inconsistent with rejection of the proposal for cotton. On April 29, the IG-IEP reviewed the cotton proposal and recommended that it be reconsidered by the SIG-IEP.

Pros:

1. Korea, the second largest market for U.S. cotton, provides a unique supplier-customer relationship. The U.S. proportion of Korea's cotton imports has traditionally been about 95 percent, higher than in any other significant market. This unusual situation directly reflects U.S. Government and private industry market development efforts, credit programs and strong political and economic ties. We should not alienate a loyal customer.
2. There is a large surplus of cotton in the United States. Korean cotton imports from the U.S. have declined recently from the traditional 95% level to about 80% in early 1983. Fifty million dollars of blended credits to Korea are estimated to provide additional exports of 90,000 bales. We shall seek agreement with the Koreans that these additional sales will not displace normal levels of imports from non subsidized suppliers.
3. The proposal is cost effective. Loss of interest for 30 months on the \$10 million direct credit portion of the loan would total about \$1.5 million. The additional 90,000 bales of cotton that would be exported under the proposal, if redeemed from loan stocks, would save CCC \$26 to 29 million.
4. Blended credit is important to U.S. efforts to maintain the traditional U.S. position in the Korean cotton import market. Without blended credit and credit guarantees the U.S. position would likely trend downward toward our proportion of the cotton imported by Japan of 45 percent, Taiwan of 62 percent and Hong Kong of 34 percent.

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5. Extension of blended credits to Korea will not increase Korean textile exports to the United States since they are limited by a bilateral agreement under the Multi-Fiber Arrangement (MFA).
6. CCC credit programs are designed to move a country gradually from credit sales to commercial sales, but in a manner which does not adversely affect U.S. agricultural exports. While Korea is in a position to meet its import needs through straight commercial financing, there is no assurance that they would continue their purchases at the same level from the United States.
7. Bank lending limits to Korea have been reached; therefore, CCC credit programs allow larger Korean imports of U.S. agricultural products than would otherwise be possible.
8. Korea has paid cash for about one-half of U.S. cotton imports in recent years and the remainder has been on commercial credit terms at no cost to the U.S. Government. It is in the U.S. interest to maintain this low-risk credit market.

Cons:

1. With its high credit rating, Korea has access to private capital markets. For FY 83, CCC has already authorized \$300 million in export credit guarantees to Korea to finance U.S. cotton exports on 2-1/2 year terms. This represents about one half of Korea's total annual cotton imports.
2. Some of the blended credit could result in substitution of cash sales or sales under the CCC credit guarantee program.
3. The Koreans would likely request additional blended credit next year.
4. Korea pays cash for the majority of its cotton imports from other suppliers.
5. Extension of blended credit could weaken the U.S. Department of Treasury led initiative to move Korea to cash purchases or 1 year CCC credit guarantee.
6. The cost to the U.S. Government of the blended credit proposal would be the loss of the interest for 30 months on the \$10 million direct credit portion of the loan. This would total about \$1.5 million.

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Options:

1. Approve \$50 million blended credit for cotton, and require repayment within 30 months for all four commodities under blended credit.
2. Approve \$80 million blended credit for all four commodities--soybeans, corn, wheat and cotton. USDA to determine allocation. Terms to be 30 months.
3. Approve a quid pro quo arrangement. See separate paper prepared by Commerce.
4. Approve blended credit proposed for cotton as amended by SIG-IEP.
5. Reject blended credit proposal for cotton.

BLENDED CREDITS FOR COTTON EXPORTS
TO KOREA

The Commerce Department is prepared to endorse the grant of a blended cotton credit to the Korean Government if consultations are held with the Korean Government in an attempt to obtain better terms for the blended credit and a better understanding on CCC credits in general. The Department of Commerce believes that the term of the blended credit should be reduced from 36 months to 30 months, consistent with the CCC credits for 1983. Further the Department of Commerce believes that we should attempt to obtain the Korean Government's commitment that a term for future CCC credits shall be reduced to 12 months over the next three years. If there is no hope of obtaining better terms for both the blended credits and CCC credits, then the Department of Commerce believes that in exchange for the granting of the blended credits of terms of 36 months the Korean Government should be requested to hold consultations aimed at obtaining reduction of Korean NTB's in areas of export interest to the United States, e.g., textiles and apparel.



OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

May 10, 1983

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(With Confidential Attachment)

MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF DEFENSE
THE SECRETARY OF AGRICULTURE
THE SECRETARY OF COMMERCE
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS
ASSISTANT TO THE PRESIDENT FOR
NATIONAL SECURITY AFFAIRS
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT
UNITED STATES TRADE REPRESENTATIVE
 DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT Senior Interdepartmental Group on International
Economic Policy (SIG-IEP)

Attached are the minutes of the SIG-IEP meeting held on
April 22, 1983.

A handwritten signature in black ink, appearing to read "David E. Pickford".

David E. Pickford

Attachment

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(With Confidential Attachment)

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SENIOR INTERDEPARTMENTAL GROUP-INTERNATIONAL ECONOMIC POLICY

April 22, 1983
 4:00 p.m.
 Indian Treaty Room

Attendees:

Treasury
 Secretary Regan
 Beryl Sprinkel
 Marc Leland

Office of Vice President
 G. Philip Hughes

State
 Kenneth Dam
 Richard McCormack

Defense
 Fred C. Ikle
 Donald Goldstein

Agriculture
 Alan Tracy

Commerce
 Secretary Baldrige
 Michael Liikala

CIA
 Henry Rowen

OMB
 Alton Keel

CEA
 Martin Feldstein

USTR
 Michael B. Smith
 Harvey Bale

OPD
 Roger Porter

NSC
 Paula Dobriansky
 William Martin
 Norman Bailey, Executive
 Secretary

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NSSD-3: Approach to International Debt

The Chairman opened the meeting by noting that while everyone was probably not entirely happy with every part of the debt report, a consensus had been reached on most of it. The discussion would focus on the two or three outstanding issues where there were still major differences of view. Before proceeding, the Chairman noted his unhappiness over the fact that a summary of this report had been leaked to the New York Times.

Marc Leland introduced the paper, noting that the document would be transmitted to the NSC and the President, who would then issue an NSDD. Under Secretary Ikle noted that it is important that our debt strategy help support our overall security interests and that our adversaries should not benefit from the help we are giving our friends.

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The Chairman then asked Henry Rowen to clarify the Agency's objections to the four percent real growth rate assumption. Mr. Rowen noted that four percent was overly optimistic and that even if such a rate was achieved, there would still be some countries who faced difficulties over the long term. Mr. Feldstein shared this view and noted that unless European recovery is more vigorous than presently predicted, the four percent will not be achieved. However, OMB pointed out that the economic fundamentals argue for a higher rate of growth: four percent seemed about right -- it might even be low by historical recovery standards. The Chairman closed the discussion by suggesting that we agree to a range between three and four percent.

The Chairman then turned to the second major problem area -- that of the institutional arrangements for managing the debt problem. The paper suggests the Group of Ten framework be considered as the focus for creditor consultations and decision on key debt issues. However, Chairman Volcker argued that such an approach would be rigid, slow and cumbersome. The Federal Reserve has no objection to the use of the existing G-10 framework as a means for review, but it would not be prudent to expect it to be operationally oriented. Mr. Volcker noted that he would prefer using the IMF as the coordinating body. Dr. Sprinkel noted that he too would be more comfortable with an IMF framework, but said that this approach may be rejected by other nations. The Chairman concluded the discussion by saying that the use of the IMF should be explored with the G-5 at next week's meeting, after which our position can be modified as appropriate.

Secretary Baldrige, Norman Bailey and Fred Ikle all noted that the study might be too optimistic on the ability of the overall system to handle debt problems and that further steps should be explored in the follow-up work. Secretary Baldrige also noted that it is vitally important to monitor debtor country export progress. Secretary Regan noted the contribution of the Department of Commerce to further studies and said that these would help form the basis of future work. In addition, he agreed that further analytical work should be performed to test the sensitivity of the system to much higher (six percent) or lower (two percent) rates of real economic growth.

The Chairman instructed Marc Leland to make the appropriate changes in the paper and forward it as soon as possible to the President and the NSC for their review.

Long-Term Grain Agreement

The Chairman then called on Deputy Secretary Dam who announced that the President had decided to offer to enter into a long-term grain agreement with the Soviet Union. The

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United States extended the offer on April 7; to date, no reply has been received from the USSR.

International Sugar Agreement

USTR Deputy Director Smith reported to the SIG that the United States needs to decide whether we should participate in the forthcoming meetings on an International Sugar Agreement. USTR and State strongly urged participation noting that while we are generally not favorably disposed to commodity agreements (e.g., SIG-IEP conclusions on coffee agreement), we have little to lose from entering into these discussions. By not participating, we give it higher visibility than if we do participate. Furthermore, the EC is the real culprit and, some of the criticism toward the EC's common agricultural policy might be blunted if the United States were to become the scapegoat by not taking part. State also noted that these negotiations are viewed as very important by our Latin American friends. The SIG-IEP concurred with the views of State and USTR, but the Chairman did note that our general views on the undesirability of commodity agreements still holds.

Polish Debt Situation

Marc Leland gave an update on the Polish debt situation. The Paris Club met April 12, 1983, to discuss Polish debt. The U.S. delegate reiterated our analysis that Poland would not be able to pay what it owes, even assuming a reasonable debt rescheduling. All the other creditors indicated that their governments were under pressure to move forward toward rescheduling.

The NSC met on April 8 to discuss a State/NSC options paper on Polish debt rescheduling. It was decided to work out a phased step-by-step approach to rescheduling that would be linked to political/human rights measures by the Polish Government. Treasury, State and NSC staff are preparing a paper which will suggest a possible proposal to discuss with our allies in the next few weeks.

Classified by ME Leland

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